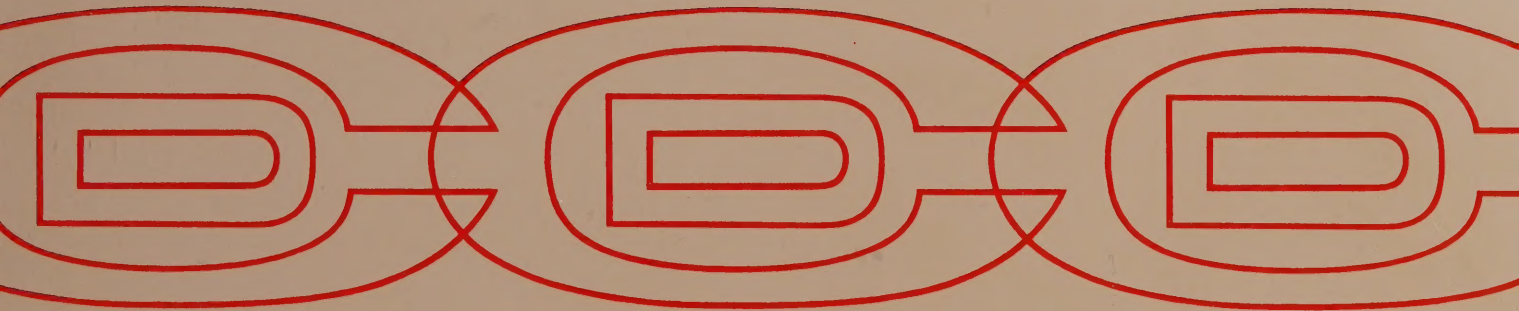


COCHRANE-DUNLOP LIMITED ANNUAL REPORT 1979

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COCHRANE-DUNLOP LIMITED

HIGHLIGHTS

| | 1979 | 1978 |
|---|---------------------|---------------------|
| Sales - - - - - | <u>\$87,225,407</u> | <u>\$73,625,586</u> |
| Income before extraordinary items - - - - - | \$ 1,066,642 | \$ 639,319 |
| Extraordinary items, profit on sale of properties - | \$ 142,703 | \$ 537,242 |
| Net income for the year - - - - - | <u>\$ 1,209,345</u> | <u>\$ 1,176,561</u> |
| Income per share: | | |
| —before extraordinary items - - - - - | \$1.15 | \$.69 |
| —net income for the year - - - - - | <u>\$1.31</u> | <u>\$1.27</u> |
| Total assets - - - - - | \$34,802,038 | \$30,426,163 |
| Working capital - - - - - | \$ 9,417,698 | \$ 9,033,165 |
| Shareholders' equity | | |
| —total - - - - - | \$14,352,890 | \$13,328,841 |
| —per share - - - - - | \$15.49 | \$14.39 |



COMPANY PROFILE

Through fifteen industrial and mill supply branches, from Quebec to Alberta, the Corporation provides a full hardware stock and experienced personnel to fill the needs of all mining, milling, manufacturing, pulp, newsprint and construction customers.

Branch locations are strategically placed to provide reliable support for customer needs in growing economic situations.

The Corporation, through its Dealer Division, in Toronto, supplies the requirements of retail hardware outlets, hardware stores, lumber yards, home centres, department stores and chains, throughout Ontario and Eastern Canada, as far as Newfoundland—it also administers the "Dominion Hardware" franchise program, a promotionally oriented enterprise, involving full sales services, catalogue support, layout and design assistance, as well as supply to retail hardware outlets.

IN MEMORIAM

We regret to report the death, in 1979, of Harold W. Ford, Director Planning and Procurement, and a senior member of Management. He is missed and will be remembered.

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The year 1979 was a year of progress for the Corporation.

Beneficial effects have already been realized following the re-organization of the Corporate Office. Extensive changes in Branch and Regional field management have been made, and, while this does involve a period of familiarization as new personnel learn new roles, the experience and skills of our Managers have been such that the forward momentum of the enterprise has been maintained and improved.

These moves have also achieved an ability to concentrate more closely on plans for growth. Greater attention can be given to those factors, which will create both improved service and improved performance in the years ahead.

Expenditures have been made, or are in progress of being made, which will improve our abilities as a wholesale distributor of hardware, and new programs are being put in place to improve efficiency and improve our competitive strengths.

Although such programs involve significant costs, and must be considered carefully, particularly in a period of uncertainty, some would say hysteria, in world financial matters, we are convinced for example that our commitment to a modern management information system for all of our Branches, instead of for the Dealer supply Division alone, is an essential first step to an improvement in our ability to grow. Such programs will have an impact on profits in the short-term which will be more than reversed as they mature; an obvious corollary of the results of the management of change.

During 1979, amid fears of imminent recession in North America, no major downturn was experienced by your Company. As a result of the concentrated efforts of all sales personnel, coupled with the strategic location of our Branches in buoyant market locations, we were in a position to progress satisfactorily in all areas.

The consolidated financial statements of Cochrane-Dunlop Limited and its wholly-owned subsidiary companies, for the year ended December 31st, 1979, together with the report of the auditors, are submitted on behalf of your Board of Directors.

SALES

Sales in 1979 amounted to \$87.2 million, an increase of \$13.6 million, or 18.5% over sales in 1978.

This growth was achieved by all segments of the business. Two factors incorporated within this result are worthy of comment:

- x i) the affect on our Sudbury Branch of an extensive labour dispute involving a major mining company in that area, which restricted volume of this Branch for the first half of 1979.
- ii) the decision was made during the year that the buoyant activity at our new Calgary Branch should be re-oriented to concentrate on a more gradual development of our traditional market patterns. While the market from this location meets all of our expectations and the potential for growth is apparent, having established a base and a presence in the area, we concluded that development on a planned basis of profit improvement should be introduced. Rationalization of the Branch has been introduced in several of its departments. This should shortly bring this Branch into a profit position.

Our 1979 sales performance is particularly encouraging as it illustrates the inherent strength arising from our branch and warehouse locations. These are concentrated close to or within efficient service distances of producers of potash, pulp, newsprint, gold, nickel, uranium, and base metal products. All of these products demonstrated strong progress in 1979, and provide an encouraging outlook for prospects for 1980.

EARNINGS

Net income for the year, including an extraordinary item of profit on sale of properties was \$1,209,345 or \$1.31 per share, an increase of 2.8% over net income for 1978, which included a significantly larger extraordinary item arising from the same source.

On an operating basis, the income before extraordinary items of \$1,066,642 for 1979 represents an increase of 66.8% over the \$639,319 shown for 1978. This improvement reflects the result of improved sales penetration, referred to earlier, together with effective controls on margins and expense levels.

A significant factor in operating results is the major increase in interest on bank indebtedness. This arises largely from the significant increase in borrowing costs faced by all business in 1979, together with the effect of higher borrowing required to finance the increased level of business operations and inflation-based price increases. The cost of borrowing has again escalated to an historically high level in 1980, and may remain at this level throughout the year, indicating a rapidly increasing trend in this level of expense.

Extraordinary items in both 1979 and 1978 represent the profit on the sale of surplus properties in both years.

FIXED ASSETS

Several major projects which will have an impact on our future service and operational capabilities were undertaken during the year:

- Additional warehouse capacity has been constructed at our Dealer supply Division warehouse to improve our ability to fill our hardware dealers' needs promptly and efficiently. This facility will be brought into service in 1980.
- The capability of our Sudbury wholesale branch has been enhanced by the major reconstruction of several areas, both building and yard, with the result that this facility which had not been changed materially for a number of years, is now a most attractive and efficient plant, well capable of handling all demands which may be placed on it.

An improved pipe yard, steel handling ability and general facility improvements are among the many features of this project.

- A new venture for your Company is the addition of a major Home and Leisure Centre, in place of a conventional store, in the Sudbury area. Although not on the same site, this outlet is a fitting substitute for the "Durham Street" store, demolished in 1975, which was the site of the original hardware business opened by the founder of our Company, some ninety years ago.

The new "Cochrane's Home and Leisure Centre" will prove to be as great a feature in the life of Sudbury as the Durham street store was in the 1890's.

- Other expenditures on fixed assets relate to normal equipment replacement and upgrading.

OUTLOOK

While the general belief that we are faced with a 'no growth' economy in Canada in 1980 is of concern, there are many indications that the steps which have been taken and are to be taken in the restructuring and motivation of the enterprise are in the right direction.

We also intend to improve our efficiency with the introduction of a modern data processing and control system, for mining, industrial and mill customers. When it is installed this will provide us with the ability to improve the speed and accuracy of our service, and at the same time utilize the broad range of inventories in all of our warehouses.

Truly, we face the Eighties with confidence.

On behalf of the Board,
April 15th, 1980.

F. Cochrane
President.

COCHRANE-DUNLOP LIMITED

CONSOLIDATED
STATEMENT
OF INCOME

FOR THE YEAR ENDED
DECEMBER 31, 1979

| | 1979 | 1978 |
|--|--------------|--------------|
| Sales | \$87,225,407 | \$73,625,586 |
| Costs and expenses, exclusive of the following items | 83,273,660 | 71,108,039 |
| Depreciation | 351,301 | 346,432 |
| Remuneration of directors and senior officers | 279,500 | 279,000 |
| Interest on bank indebtedness | 1,619,304 | 1,067,796 |
| | 85,523,765 | 72,801,267 |
| Income before income taxes and extraordinary items | 1,701,642 | 824,319 |
| Income taxes | 635,000 | 185,000 |
| Income before extraordinary items | 1,066,642 | 639,319 |
| Extraordinary items, profit on sales of properties (less applicable income taxes: 1979—\$38,000; 1978—nil) | 142,703 | 537,242 |
| Net income for the year | \$ 1,209,345 | \$ 1,176,561 |
| Income per share: | | |
| Before extraordinary items | \$1.15 | \$0.69 |
| Profit on sales of properties | 0.16 | 0.58 |
| Net income for the year | \$1.31 | \$1.27 |

CONSOLIDATED
STATEMENT OF
RETAINED EARNINGS

FOR THE YEAR ENDED
DECEMBER 31, 1979

| | 1979 | 1978 |
|----------------------------------|--------------|--------------|
| Balance, beginning of year | \$12,795,141 | \$13,476,706 |
| Net income for the year | 1,209,345 | 1,176,561 |
| | 14,004,486 | 14,653,267 |
| Deduct: | | |
| Dividends | 185,296 | 1,852,952 |
| Tax paid on undistributed income | | 5,174 |
| | 185,296 | 1,858,126 |
| Balance, end of year | \$13,819,190 | \$12,795,141 |

(See accompanying notes)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1979

ASSETS

Current assets:

| | 1979 | 1978 |
|-----------------------|------------|------------|
| Cash | \$ 10,120 | \$ 9,221 |
| Accounts receivable | 11,442,013 | 10,396,548 |
| Merchandise inventory | 18,108,540 | 15,516,735 |
| Prepaid expenses | 239,768 | 207,983 |
| | 29,800,441 | 26,130,487 |

Fixed assets, at cost:

| | | |
|-------------------------------|--------------|--------------|
| Buildings | 5,620,072 | 5,199,084 |
| Furniture and fixtures | 2,390,455 | 2,137,950 |
| Automotive equipment | 394,957 | 341,526 |
| Leasehold improvements | 444,477 | 215,022 |
| | 8,849,961 | 7,893,582 |
| Less accumulated depreciation | 5,137,811 | 4,906,865 |
| | 3,712,150 | 2,986,717 |
| Land | 1,289,447 | 1,308,959 |
| | 5,001,597 | 4,295,676 |
| | \$34,802,038 | \$30,426,163 |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

| | | |
|--------------------------------------|--------------|--------------|
| Bank indebtedness | \$13,110,872 | \$11,326,830 |
| Accounts payable and accrued charges | 6,171,261 | 5,352,338 |
| Income and other taxes payable | 1,054,286 | 371,830 |
| Dividends payable | 46,324 | 46,324 |
| | 20,382,743 | 17,097,322 |

Deferred income taxes

66,405

Shareholders' equity:

| | | |
|------------------------|--------------|--------------|
| Share capital (note 2) | 533,700 | 533,700 |
| Retained earnings | 13,819,190 | 12,795,141 |
| | 14,352,890 | 13,328,841 |
| | \$34,802,038 | \$30,426,163 |

On behalf of the Board:

F. COCHRANE, *Director*F. S. MARTIN, *Director*

(See accompanying notes)

COCHRANE-DUNLOP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED
DECEMBER 31, 1979

| | 1979 | 1978 |
|---|--------------|--------------|
| Funds were obtained from: | | |
| Operations— | | |
| Income before extraordinary items | \$ 1,066,642 | \$ 639,319 |
| Items not requiring a current outlay of funds: | | |
| Depreciation | 351,301 | 346,432 |
| Deferred income taxes | 66,405 | |
| | 1,484,348 | 985,751 |
| Proceeds on sales of fixed assets (less taxes on related gain of \$38,000 in 1979) | 185,554 | 634,415 |
| | 1,669,902 | 1,620,166 |
| Funds were applied to: | | |
| Expenditures on fixed assets | 1,100,073 | 380,196 |
| Dividends | 185,296 | 1,852,952 |
| Tax paid on undistributed income | | 5,174 |
| | 1,285,369 | 2,238,322 |
| Increase (decrease) in working capital | 384,533 | (618,156) |
| Working capital, beginning of year | 9,033,165 | 9,651,321 |
| Working capital, end of year | \$ 9,417,698 | \$ 9,033,165 |

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of
Cochrane-Dunlop Limited:

We have examined the consolidated balance sheet of Cochrane-Dunlop Limited as at December 31, 1979 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Cochrane-Dunlop Limited as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 31, 1980.

CLARKSON GORDON
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1979

1. Summary of significant accounting policies**(a) Basis of consolidation—**

The consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly-owned, and include the earnings of the subsidiaries since acquisition.

(b) Inventories—

Inventories are carried at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

(c) Depreciation—

The Corporation and its subsidiaries provide for depreciation and amortization on fixed assets as follows:

| | <u>Rate</u> |
|-----------------------------|---------------------------------|
| Diminishing balance method— | |
| Buildings | 5% and 10% |
| Furniture and fixtures | 20% |
| Automotive equipment | 30% |
| Straight-line method— | |
| Leasehold improvements | over the terms of the leases |

2. Share capital

The authorized capital of the Corporation consists of 1,500,000 common shares without par value of which 926,476 common shares are issued as fully paid and non-assessable.

3. Lease commitments

The Corporation is committed to aggregate rental payments of approximately \$3,300,000 on leases expiring in the years 1980 to 1991. Payments in each of the next five years are as follows:

| | |
|-------|-----------|
| 1980— | \$535,000 |
| 1981— | 510,000 |
| 1982— | 452,000 |
| 1983— | 439,000 |
| 1984— | 280,000 |

4. Subsequent event

After the year end the Corporation entered into leases for computer hardware calling for total payments of approximately \$2,100,000 over five year periods which commence as each item of equipment is installed. The installation of equipment is expected to commence in 1980 and be completed in 1982.

5. Reclassification of 1978 figures

Amounts reported in 1978 have been reclassified to conform to the accounting presentation adopted in 1979.

COCHRANE-DUNLOP LIMITED

10-YEAR STATISTICAL SUMMARY

(figures in thousands except ratios, shares, and amounts per share)

| FOR THE YEAR | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 | 1970 |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Sales - - - - - | \$87,225 | \$73,626 | \$71,764 | \$67,089 | \$62,883 | \$58,025 | \$45,115 | \$39,294 | \$41,815 | \$41,516 |
| Depreciation - - - - - | 351 | 346 | 399 | 333 | 290 | 249 | 179 | 188 | 202 | 202 |
| Interest on bank indebtedness - - - | 1,609 | 1,068 | 773 | 547 | 466 | 383 | 132 | 65 | 88 | 119 |
| Income taxes - - - - - | 635 | 185 | 560 | 880 | 1,270 | 1,330 | 820 | 640 | 630 | 550 |
| Net income - - - - - | 1,067(b) | 639(b) | 952 | 928 | 1,234 | 1,195 | 793 | 675 | 613(b) | 489 |
| % to sales - - - - - | 1.2%(b) | 0.9%(b) | 1.3% | 1.4% | 2.0% | 2.1% | 1.8% | 1.7% | 1.5%(b) | 1.2% |
| per common share (note a) | 1.15(b) | 0.69(b) | 1.03 | 1.00 | 1.35 | 1.38 | .91 | .77 | .69(b) | .55 |
| Dividends—total - - - - - | 185 | 1,853 | 306 | 306 | 336 | 200 | 128 | 128 | 128 | 128 |
| Per share (note a) | | | | | | | | | | |
| —Class A - - - - - | — | — | — | — | .05 | .20 | .20 | .20 | .20 | .20 |
| —Common - - - - - | .20 | 2.00 | .33 | .33 | .36 | .22 | .13 | .13 | .13 | .13 |
| Expenditures on fixed assets | 1,100 | 380 | 449 | 1,671 | 422 | 469 | 564 | 88 | 202 | 89 |
| Increase (decrease) in working capital - - - - - | 385 | (618) | 597 | (769) | 708 | 742 | 260 | 626 | 503 | 473 |
| AT YEAR END | | | | | | | | | | |
| Working capital - - - - - | 9,418 | 9,033 | 9,651 | 9,054 | 9,823 | 9,115 | 8,373 | 8,114 | 7,488 | 6,985 |
| Shareholders' equity - - - - | 14,353 | 13,329 | 14,010 | 13,364 | 12,795 | 11,956 | 10,993 | 10,348 | 9,822 | 9,319 |
| Shares outstanding (note c) | | | | | | | | | | |
| —Class A - - - - - | — | — | — | — | — | 17,092 | 17,092 | 17,092 | 17,092 | 17,092 |
| —Common - - - - - | 926,476 | 926,476 | 926,476 | 926,476 | 926,476 | 143,018 | 143,018 | 143,018 | 143,018 | 143,018 |

Notes:

a Based on average number of shares outstanding and adjusted for capital stock reorganization and split in 1975.

b Before adding Extraordinary Items of: 1979—\$142,703 or \$0.16 per common share.

1978—\$537,242 or \$0.58 per common share.

1971—\$25,000 or \$0.03 per common share.

c Capital stock was reorganized effective on June 11, 1975.

COCHRANE-DUNLOP LIMITED

CORPORATE DIRECTORY

HEAD OFFICE:

SUITE 450, NORTH TOWER
ROYAL BANK PLAZA
TORONTO, ONTARIO M5J 2J1

Directors

| | |
|-----------------------------------|-------------------------------|
| E. A. Bird, Toronto, Ontario | T. S. Jones, Dryden, Ontario |
| A. Gordon Cardy, Toronto, Ontario | F. S. Martin, Ottawa, Ontario |
| G. R. Chater, Toronto, Ontario | F. F. Todd, Oakville, Ontario |
| F. Cochrane, Toronto, Ontario | |

Officers

| | |
|------------------------|--|
| F. Cochrane, President | R. L.T. Baillie, <i>Vice-President Finance</i> |
|------------------------|--|

Corporate Management

| | |
|---|--|
| M. Champ, <i>Director Distribution</i> | T. D. Holmes, <i>Director Personnel and Industrial Relations</i> |
| J. S. Dawson, <i>Director Purchasing</i> | |
| R. G. Freed, <i>Director Industrial Marketing</i> | D. Livingston, <i>Director Dealer Division</i> |

Counsel

Shibley, Righton & McCutcheon

Auditors

Clarkson Gordon

Transfer Agent and Registrar

The Canada Trust Company—Toronto

Wholly-Owned Subsidiary Companies

C-D Hardware Sales Limited
Quincailleries Cochrane-Dunlop Quebec Inc.
Cochrane-Dunlop Hardware Manitoba Limited
Cochrane-Dunlop Hardware Saskatchewan Limited
Dominion Hardware Stores Limited
Cochrane-Dunlop Alberta Limited
Cochrane-Dunlop, Inc. (Buffalo, N.Y., U.S.A.)

Wholesale Branches

ONTARIO

| | |
|----------------------|---|
| Dryden— | 264 Government Street, Dryden. |
| Elliot Lake— | 2 Roddis Road, Elliot Lake. |
| Little Current— | Vankoughnet Street, Little Current. |
| North Bay— | 881 Jet Avenue, North Bay. |
| Sault Ste. Marie— | 550 Second Line East, Sault Ste. Marie. |
| Sudbury— | 122 Douglas Street W., Sudbury. |
| Thunder Bay— | 425 Eleventh Avenue, Thunder Bay. |
| Toronto | |
| (Dealer Division)— | 1385 Bloor Street West, Toronto. |
| Toronto | |
| (Industrial Supply)— | 50 Woodbine Downs Boulevard, Rexdale. |
| Wawa— | Government Road, Wawa. |

QUEBEC

Val d'Or— 1337 Harricana Street, Val d'Or.

MANITOBA

Thompson— Station Road, Thompson.

SASKATCHEWAN

Esterhazy— 4 East Drive, Esterhazy.
Saskatoon— 2525 Wentz Avenue, Saskatoon.

ALBERTA

Calgary— 4215-58th Avenue S.E., Calgary.
Edmonton— 9445-49th Street, Edmonton.

Retail Branches

ONTARIO

| | | |
|--------------|-----------|-----------------------|
| Copper Cliff | Lively | Oakville |
| Hamilton | North Bay | Sudbury (Home Centre) |
